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Report Highlights:

Being the 5th largest market for U.S. consumer-oriented products, Hong Kong provides tremendous opportunities to U.S. exporters. In the past eight months, U.S. exports of snack foods, breakfast cereals and tree nuts witnessed double-digit increases. While 2003 food retail sales valued at 5.8 billion remained flat, prospects for 2004 and 2005 show more potential. There are many favorable factors that represent promising sales in the food retail sector for the upcoming year. The economy has greatly improved, in-bound tourism is burgeoning, and Disney is soon scheduled to open. In addition, because the Hong Kong dollar is pegged to the US dollar, a weak US dollar is now an incentive that may drive Hong Kong importers to buy more U.S. products.

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SECTION I Market Overview

Economy

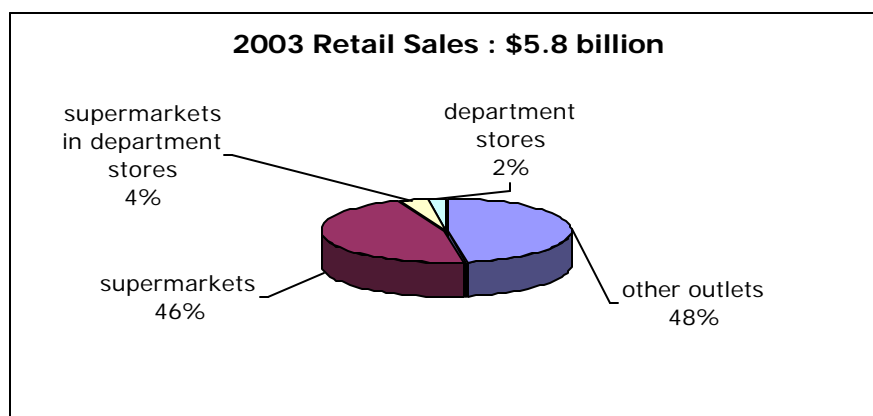
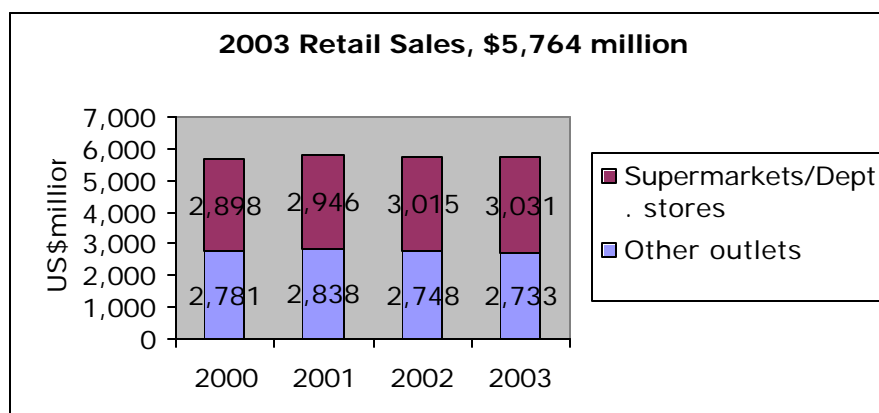
- Being one of the most affluent economies in Asia, Hong Kong's 2004 forecast per capita GDP is U.S.\$23,700, up from \$23,300 in 2003.
- The Hong Kong population was 6.8 million, representing an increase of 0.6% over mid-2003.
- The Hong Kong economy has demonstrated a solid upturn since mid 2003. In the first half of 2004, real GDP rose by 9.5% from a year earlier resulting from the picking up of the property market and an upsurge of consumer spending. With stronger positive consumer sentiment and improving employment prospects, retail sales grew by 12% in value in the first eight months of 2004. The unemployment rate also fell from a historic high of 8.6% in the second quarter of 2003 to the provisional 6.8% in the third quarter of 2004. The economy forecast for 2004 is encouraging. The official forecast of GDP growth was lately revised to 7.5% for the whole of 2004, 1.5 percentage points higher than the earlier forecast.
- The second phase of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA II) was concluded in August 2004, providing further liberalisation measures on trade in goods and services entering the mainland and promising great benefits for Hong Kong's economy. It's expected to provide a new source of growth for the city's economy.
- Consumer prices fell by 2.6% in 2003 and 0.6% in the first nine months of 2004. However, consumer prices reverted to an increase in July, signifying the end of a 68-month deflation period. Hong Kong consumers are psychologically prepared to experience rising prices across the board.
- Tourist arrivals surged by 68.3% in the first half 2004. The flourishing inbound tourism has been largely due to a policy change that allows mainland residents in selected cities to visit Hong Kong on an individual basis, rather than exclusively as part of tour groups. In 2003, tourists spent \$873 million in restaurants other than meals taken in hotels, accounting for approximately 14% of Hong Kong's HRI business. As such, robust tourism not only has the merit of stimulating a series of peripheral businesses but also has a positive direct impact on HRI revenue. The Hong Kong Tourism Board is targeting 20.5 million tourist arrivals in 2004, assuming a growth of 31.8% from the 2003 total of 15.5 million.
- The opening of Disney in Hong Kong in late 2005 is expected to give a further boost to the Hong Kong economy.

Retail Sales and Outlets

- Total retail sales of food and drinks in Hong Kong for 2003 reached U.S.\$5.8 billion. For January – August 2004, retail sales of food, alcoholic drinks, and tobacco for traditional markets and supermarkets, increased 1.4% and 1.3% respectively, compared with the same period last year. The sentiment for spending is improving.
- Hong Kong's economy has gradually picked up. The prospect for food retail sales is much better than last year. While retail sales of food were flat for the past two years,

total sales for the coming year may slightly increase underpinned by price increases and the improved economy.

- Retail establishments in 2002 amounted to approximately 16,202, which included (1) 85 supermarkets and convenience store establishments (including retail outlet branches, estimated at about 800) and (2) 16,117 wet market stalls and “mom and pop” shop operators. Retail shops in Hong Kong generally are very small in size, about 98 percent of which hire less than 10 employees.
- Traditionally, Hong Kong consumers shop for food daily because of a preference for fresh food. Most shopping is still done in traditional markets including wet markets and mom-and-pop shops. However, sales in supermarkets are increasing. The supermarket's share in terms of retail sales has risen from 44% of total sales in 1995 to 53% in 2003. Many supermarkets in Hong Kong now have successfully tapped the fresh food market by offering fresh foods at very competitive prices and providing a comfortable shopping environment, which is very different from traditional wet markets. In 2000, only \$524 million worth fresh/chilled meat, fish, fruit and vegetables and frozen food were sold in supermarkets. The sales values of the same category in supermarkets greatly expanded to \$581 million in 2003, increasing 11% over 2000.



Retail Sales between 2000 – 2004, in US\$ million

	2000	2001	2002	2003
Other outlets	2,781	2,838	2,748	2,733
Supermarkets/Dept. stores	2,898	2,946	3,015	3,031
Total	5,679	5,785	5,763	5,764

Percentage of Sales by Retail Outlets

	2000	2001	2002	2003
Other outlets	49%	49%	48%	47%
Supermarkets/Dept. stores	51%	51%	52%	53%
Total	100%	100%	100%	100%

Import Regulations

- Food products can be imported to Hong Kong duty free except cigarettes and alcoholic drinks. As for technical import requirements, the basic tenet is that no food intended for sale should be unfit for human consumption. Products which require import permits/health certificates include meat, milk and frozen confections. The Hong Kong government accepts import applications from Hong Kong importers. In other words, local importers and not U.S. exporters are required to apply for import permits. U.S. exporters need to supply their agents/importers with necessary documentation such as health certificates from the U.S. government. Details refer to Gain Report #4018.
- At present, there is no labeling requirement for biotech foods. The Hong Kong government is considering adopting voluntary labeling and pre-market safety assessment for biotech foods but has set no timetable for implementation.
- The Hong Kong government also intends to implement a mandatory nutrition labeling system, which will start to run on a voluntary basis for a period of five to ten years. According to the proposal, all prepackaged foods will eventually be subject to nutrition labeling. Drafting of the regulation has not yet started. Details refer to Gain Report HK#3040.

Imported Food vs. Domestic Products

- Due to limited land resources and rapid urbanization, Hong Kong has to rely heavily on imports for its food supply. In 2003, local production contributed only 5 percent of fresh vegetables, 31 percent of live poultry, and 23 percent of live pigs. However, Hong Kong's total imports of consumer-oriented products and fish & seafood products amounted to US\$4.9 billion and US\$1.7 billion respectively in 2003. Though 30% of consumer-oriented products and 22% of seafood products were re-exported, a total of US\$4,728 million worth of these imported products were retained in Hong Kong for local consumption.
- Hong Kong is an important market for consumer-oriented American foods and ranks number five as a U.S. export destination for these products. Hong Kong imported over US\$1 billion of consumer-oriented products from the United States in 2003 accounting for 21% of the import market share.

Consumer Preference

- There has been growing popularity of frozen foodstuffs because many working women cannot afford the time to do grocery shopping daily. Besides, more and more consumers believe that frozen foods are more hygienic. However, Hong Kong consumers in general still prefer fresh foodstuffs, particularly fish.
- Hong Kong's relatively sophisticated shoppers are buying an increasing percentage of their groceries in supermarkets, as opposed to traditional wet markets. On the other hand, supermarket chains are able to offer products at more competitive pricing because they have a strong bargaining power at getting supplies and are able to reap the merits of economies of scale.
- According to a recent survey by AC Nielsen, Hong Kong people are among the most impulsive buyers in Asia. The most popular retail outlets for impulsive purchase include convenience stores (22%), bakeries (21 %) and supermarkets (17%). Impulse buyers of food items include drinks (50%), bread (29%) and snacks (14%). Popular drinks include lemon tea, green tea, soft drinks and water. Ice cream, chocolate and chewing gum are most popular snack items.
- Since ice-cream is the most popular snack, Hong Kong has witnessed the opening of more and more ice-cream specialty shops such as New Zealand Natural, Kida Garden, Papagallo, along with the long established Ben & Jerry's, Double Rainbow and Haggen Daz.
- Hong Kong consumers' buying decision is largely based on for value money. Generally, consumers are not brand loyal when they are faced with discount privileges of another brand or with "out-of-stock" situation.
- Because of the limited living space in Hong Kong, it is inconvenient for Hong Kong consumers to store food products. Therefore, bulk pack food products do not sell well in Hong Kong, and small package food products are preferred.
- There is most potential for growth in the processed/convenience sectors of Hong Kong's retail food markets for U.S. high value consumer foods such as general grocery items, ingredients for home meal replacement, and health food.
- Due to the increasing prevalence of dual income families, ready-to-cook food has become more popular. The major supermarket chains in Hong Kong have been putting more emphasis on convenience foods.
- Hong Kong consumers have become increasingly more aware of food safety issues and nutrition values of food products. Clear indications of nutritional value on the package are certainly a good marketing strategy for health foods. (The Hong Kong government is planning to regulate nutrition labeling and health claims. Details please refer to reports HK3040 and HK4017 respectively.)
- The health-supplement market continues to enjoy healthy growth in recent years. According to Euromonitor's latest study, there has been a steady growth in the past six years in Hong Kong from \$106 million in 1997 to \$121 million in 2002. US-based Nu Skin Enterprises, one of the largest direct selling companies in the world, opened a shopping plaza in Hong Kong in July 2003. The company made a \$1 million plus investment in Hong Kong's retail sector because it sees significant potential in the health products markets and regards Hong Kong as a stepping-stone to China. The

company representative revealed that the company has experienced double-digit growth in Hong Kong since 2000.

- According to a survey result released in late 2003, Hong Kong women consume more health food and health supplements than men and they are willing to spend a lot more money. Strengthening the immune system and for slimming topped the list of reasons why Hongkongers ate health food and 36% of women and 40% of men saying they would look for information on strengthening their systems when reading labels.
- The sales of organic products have been increasing steadily. A representative of the Great Supermarket revealed that there were only 200 organic items for sale three years ago, the variety has greatly expanded to over 2000 items this year. The price discrepancy between conventional and organic foods has also narrowed over the years. Currently, organic products are priced generally 10% higher. The most popular organic products are baby foods.
- According to a survey result released in July 2003 by one supermarket chain in Hong Kong, the top ten most popular product brands were: Amoy dim sum, Coca-Cola, Doll dim sum, Dreyer's ice cream, Lee Kum Kee oyster sauce, Mr Juicy orange juice, Nestle Dairy Farm fresh milk, Nissin instant noodle, Vitasoy soya milk and Yakult lactic drink. The survey reflected Hong Kong consumers' preferences to a certain extent.
- To better understand Hong Kong consumers' preferences for western foods, the ATO commissioned a pilot study from a Hong Kong market research firm on consumer preferences among Hong Kong Chinese consumers for four different categories of food products: hot dogs, salty snacks, fruit juice beverages and celery. The purpose of the study is to identify consumer attitudes and buying habits so as to help U.S. exporters gain an insight as to how to introduce western foods in the most effective way to Hong Kong consumers. For details, please refer to Gain Report # HK0056.

Advantages	Challenges
World's freest economy (Economic Freedom of the World, 2004 Annual Report, published by the Cato Institute of the United States in conjunction with the Fraser Institute of Canada and some 50 other research institutes around the world). Consistent free trade and free enterprise policies. No import duty except on wine, liquor, cigarettes, hydrocarbon oils and methyl alcohol. Separate customs territory from Mainland China. No foreign exchange controls.	Severe competition between different supplying countries.
H.K. dollar pegged to the U.S. dollar, so U.S. products are not subject to price fluctuations based on exchange rates. (Can be a disadvantage when U.S. dollar is strong. Then products from other supplying countries become more price competitive compared to U.S. products.)	A very price sensitive market; importers' buying decisions depend largely on price.

Advantages	Challenges
Foreign and local businesses operate on a level playing field.	U.S. products are disadvantaged by a higher transport cost when compared with Australian and Chinese products.
As one of the most affluent economies in Asia, a market leader for new products.	Lack of trader and consumer awareness of U.S. foods. Traditional preference for European foods, due to previous ties with the U.K.
International city; residents travel frequently and are receptive to western and novel food.	A virtual duopoly in food retailing allows retailers to charge high slotting (shelf space) fees. See section on Supermarkets.
Sophisticated, reliable banking system.	
Consistent import regulations and rule of law.	

SECTION II Road Map for Market Entry

A. Entry Strategy

To set up a representative office in Hong Kong is one of the most effective means that U.S. companies can use to sell their products to this market, but it is very costly. Apart from this entry strategy, there are three different ways for new-to-market exporters to get into the Hong Kong market:

Through agents : U.S. exporters may consider hiring a local agent. There are several factors to consider when hiring an agent. 1) Does the prospective agent already have an account with major supermarkets? Supermarkets will more readily accept new brand products when the agent already has an account with the supermarkets. 2) Does the prospective agent have a good marketing record and widespread distribution network?

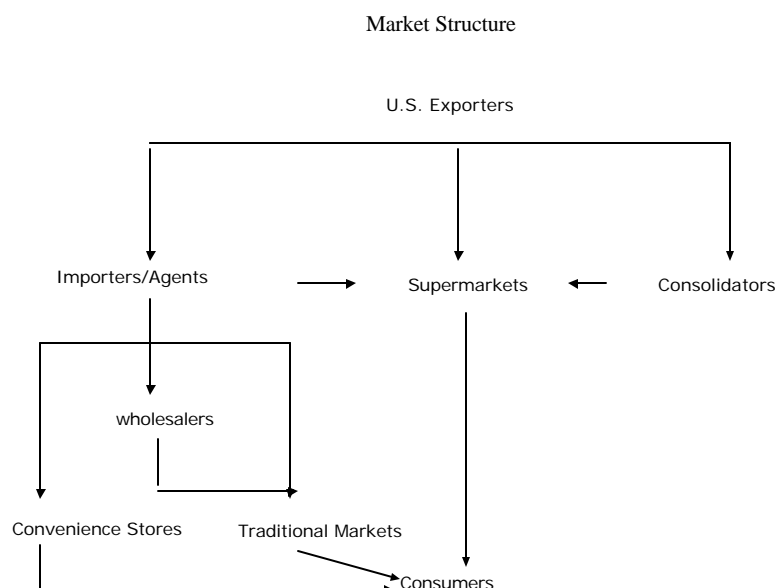
The advantage of having an agent is that it can help with marketing and distribution. Some companies may secure a very competitive price package with TV/magazine/radio for advertisements. In addition, well-established companies have extensive distribution networks not limited to one or two supermarkets but to very extensive distribution outlets.

Direct to supermarkets : For branded products to sell direct to supermarkets, supermarkets usually require exclusive rights in selling the products in Hong Kong through their own outlets only. Otherwise, they will not consider any direct imports. In this case, expensive listing fees may be waived. For non-branded and large turnover products such as fruit, meat, and vegetables, supermarkets tend to buy direct from overseas exporters to cut costs.

Direct selling to supermarkets is difficult to handle because they demand strict on-time delivery and very often will not be able to take a whole container. Logistics is the largest problem that U.S. exporters have to deal with if they want to sell direct to supermarkets. However, they can better test the market if dealing directly with retailers.

Through consolidators : Major supermarkets in Hong Kong work with U.S. consolidators for some of their products. Their purpose is to introduce new products, which have already been very popular in other overseas markets, to Hong Kong.

B. Market Structure



- U.S. exporters intend to sell to supermarkets can go through either one of the above channels. For products with large and regular turnover such as meats and fruits, major supermarkets try to order directly from exporters so as to cut costs. While certain supermarkets have tried to order an assortment of imports through consolidators, the bulk of supplies come from local agents or importers.
- Convenience stores and traditional retail outlets buy goods from local importers and agents. Due to relatively little turnover, they are not interested in buying direct from exporters or through consolidators. Therefore, U.S. food exporters have to go through Hong Kong importers to have their products sold in convenience stores or traditional markets.
- ATO Hong Kong provides lists of local supermarkets and importers/wholesalers to U.S. exporters and we are happy to line up appointments if U.S. exporters come to Hong Kong exploring the market.

C. Supermarkets – Company Profiles

Name of Retailer	Ownership	Food Sales US\$	No. of Outlets	Location	Type of Purchasing agent
Wellcome	Hong Kong	over \$1 billion	240, 21 which are superstores	Hong Kong	Importers/Agents Exporters Consolidators
ParknShop	Hong Kong	over \$1 billion	214, 53 of which are superstores*	Hong Kong	Importers/Agents Exporters Consolidators
China Resources Supermarket	China	not available	86, 4 of which are superstores	Hong Kong	Importers/Agents Exporters
Dah Chong Hong	Hong Kong	not available	48	Hong Kong	Importers/Agents Exporters
Jusco Stores (HK) Ltd.	Japan	not available	7	Hong Kong	Importers/Agents
City Super	Hong Kong	not available	3 and 2 other called Log-on selling snacks only	Hong Kong	Importers/Agents Consolidators
Oliver Delicatessen	Hong Kong	Not available	1	Hong Kong	Importers/Agents Consolidators
Uny	Japan	Not available	1	Hong Kong	Importers/Agents
Sogo	Japan	Not available	1	Hong Kong	Importers/Agents

- There are two dominant supermarket chains in Hong Kong: The Wellcome Co. Ltd. (240 outlets) and ParknShop (over 214 outlets). ParknShop and Wellcome account for about 80 percent of the supermarket turnover. Both supermarkets are able to work closely with real estate developers to open stores in strategic locations, thus maintaining their significant market share. The other players include: China Resources Supermarket (CRC), Dah Chong Hong, Jusco and City Super.
- China Resources focuses on local customers. While carrying a variety of products from different countries, a major portion of them comes from China.
- Dah Chong Hong's outlets are generally located near wet markets. While being an importer of a variety of products, its retail outlets focus on frozen meat and seafood products. Dah Chong Hong is a major food importer too.
- Jusco is a supermarket located in a Japanese Department store. Jusco chain attracts many middle-class customers, who are receptive to new products and do not mind to pay for higher prices for better quality products. The listing fee that Jusco charges is

HK\$2,000 (US\$257) per item for a period of three months. Also there is a weekly promotion charge of HK\$1,000 (US\$129) per item per store.

- Citysuper and Oliver Delicatessen capture an upscale market and no listing fee is required. Clientele includes mainly well-off middle class and expatriates. Customers are generally receptive to western foods. Both high-end supermarkets require no listing fees. Oliver carries over 6,000 SKUs.
- Gateway Superstore and PrizeMart are two supermarkets in Hong Kong selling primarily U.S. products. PrizeMart has 10 stores and carries about 1,500 SKUs. Gateway, with only one store in the Central district, carries over 4,500 SKUs, all of which imported directly from US consolidators. Both supermarkets do not charge listing fees.
- Sogo and Uny are supermarkets in Japanese department stores. Like Jusco, they are after the middle class clientele. These two stores are popular spots for in-store promotions as they are packed with consumers seven days a week.
- In recent years, a "shopping mall" concept has emerged in the operation of some new superstores, i.e., a variety of services are provided. For example, a Wellcome superstore, with a floor area of 54,000 square feet, provides massage service. A doctor specializing in Chinese medicine has an office within the store providing consultation to patients. The largest ParknShop store in Hong Kong has a floor area of 72,000 square feet and sells over 20,000 product categories ranging from snacks to electrical household appliances. New features include a drug store operating inside the superstore with a full-time pharmacist. Also, this new superstore provides free internet service to customers once they have made a minimum purchase. This ParknShop megastore contains a zone in which all goods are priced at HK\$8, in a move that could set off a war with existing HK\$10 bargain stores. The HK\$8 zone features 1,000 Japanese-style items ranging from cooking utensils to skin-care products.
- In 2001, a new upscale supermarket opened called Great Food Hall, with two outlets at the moment. It is associated with ParknShop but products on the shelf are more upscale. Located in commercial areas, it targets at a better-off clientele. Both Great Food Hall and City Super are competing in the same market segment. The opening of the Great Food Hall provides another excellent retail outlet for quality U.S. products. When new products are proved popular in this new outlet, then they can find their way easily to ParknShop's chain stores.
- Almost all Hong Kong supermarkets require listing fees, that is, a fee charged to allow a new product to be put on their shelves. This is a one-off fee for a trial period. The listing fees are extremely negotiable and vary greatly among different supermarket chains. For example, Wellcome and ParknShop, which have many branch stores, have expensive listing fees. A product with five SKU categories is expected to pay U.S.\$26,000 to U.S.\$39,000. On the other hand, Jusco, a supermarket in a Japanese department store, charges U.S.\$150 for all its stores. The agent will not bear this cost, which is transferred to the principal. In short, all supermarkets require listing fees except those belonging to Japanese department stores. (Jusco is the only Japanese department store food retailer that requires a listing fee.)
- U.S. exporters should be prepared to encounter numerous trading term demands from Hong Kong food retailers, such as promotional discounts (number of discount promotions offered each year); back-end income (flat rebate per year that a U.S.

exporter has to pay to the retail chain based on the annual turnover); D.G.A. (Distribution allowance - the fee that the supermarkets charge for distributing the products from its warehouse to its many branch stores); and incentive rebate (a percentage of turnover rebated to the supermarkets in case sales exceed the agreed amount). It can be expected that the bigger the supermarket, the harsher the trading terms. For general reference, about 15 percent of the annual turnover must be rebated to the major supermarkets and 8 percent to small ones.

- Different products have different mark-ups. A dried fruit importer revealed that an importer usually operates on a mark up of 5% to retailers who would then mark up another 30% to 35% to consumers.
- There is excellent potential growth in Hong Kong's retail food market for U.S. grocery store items, particularly new and different items, as food retail outlets continue to increase and diversify. Because of established ties and traditional relationships, most of Hong Kong's supermarket chains traditionally looked to the Britain, Australia, New Zealand, and Canada for supplies. In recent years, however, buying habits are shifting and many more American items are now available on local grocery store shelves. Supermarkets tend to use consolidators to help them source new products which are popular in the United States.

Report by the Consumer Council

- According to a report released by the Consumer Council in August 2003, there are some findings with regard to supermarkets. First, prices at the big two supermarkets and CRC over the first half of 2003 had gone up by an average of 1.5% compared with a year earlier. When discounts and promotions were taken into account, average prices had dropped by 0.8%. However, government figures show that deflation for June 2003 was running at 3.1 percent, year on year.
- Secondly, in the six years from 1996 to 2001, there has been a substantial decline of small supermarket operators by approximately 41%.
- Thirdly, from 1993 to 2003, the two major supermarket chains have grown 29% by number of retail outlets (31% for Wellcome and 28% for ParknShop respectively).
- The Consumer Council warned that consumers would be deprived of choice if the market was monopolized - especially as smaller supermarkets and wet markets were phased out. When there is a lack of fair competition, supermarket giants may control the variety of products available. Therefore, it called for a wide-ranging law on fair competition, and a high-powered authority to oversee it.
- The Hong Kong government responded that there was no sign the two dominant supermarket chains engaged in anti-competitive acts or abused their market power. The government said it did not see the need for a competition law.
- Instead, the Hong Kong government introduced "Guidelines to maintain a competitive environment and define and tackle anti-competitive practices: Private Sector Participation" and encouraged various trade and industry associations, including the Hong Kong Retail Management Association to develop a set of guidelines pertinent to their business.

D. Convenience Stores – Company Profiles

Note: Gas station marts are not included in this section because they are not significant in Hong Kong. This is a small city and there are not any real long drives.

Retailer Name	Ownership	No. of Outlets	Locations	Purchasing agent	Year established	Clients' age
7-Eleven	Hong Kong	600	HK	Importers Agents	1981	15-35
Circle K	Hong Kong	197	HK	Importers Agents	1985	15-35

- There are around 800 convenience stores in Hong Kong. Two major chains dominate the market: 7-Eleven (600 outlets) and Circle K (197 outlets). They are targeting the customer age group of 15-35. Convenience stores are characterized by round-the-clock operation. Since only a limited choice of brand names is available and prices are generally less competitive, most purchases are "convenience" in nature, i.e. goods are normally bought in small quantities for immediate consumption. The average store size of a convenience store is 1,000 sq. ft. Listing fees are also required for convenience stores.
- Dairy Farm, which owned both Wellcome and 7-Eleven, acquired Daily Shop convenience stores in September 2004. The 87 Daily Shop convenience stores will be converted to 7-Eleven making the total number of 7-Eleven stores to 600. These stores are strategically located in MTR (subway) and KCR (train) stations, popular shopping malls and housing developments throughout Hong Kong. After acquiring Daily Shop, 7-Eleven accounted for 73% of all the convenience stores at MTR (subway) stations, compared to the 30% market share before the taking over.
- According to a study, Hong Kong can accommodate 1,200 convenience stores. Given that there are about 800 stores presently, there is still a room for expansion. The primary strategy of convenience stores is to increase services providing "convenience" to consumers and to increase the number of stores so as to reach economies of scale. 7-Eleven, operated on a franchise basis, is able to expand the number of stores quickly. Meanwhile, Circle K is continuing to expand. It is reported to have set a target to increase its current 150- plus outlets to 210 by 2004. Circle K is owned by a listed company and does not work on franchise basis.
- A new development in 2003 is that ParknShop expanded into 24-hour convenience store operations. The supermarket giant has opened six stores under the name ParknShop Express on a trial scheme and may expand the network across Hong Kong if the experiment succeeds. ParknShop has intrinsic competitive advantages over its rivals because it can use the leverage of the group's existing infrastructure to offer products at low prices. The stores carry the products as other convenience stores such as cooked food, drinks, newspapers and magazines. In a bid to lure customers, the 1,000 products offered by ParknShop Express are priced at the same level as those being sold at ParknShop. This is in contrast to other convenience store operators charging at a premium of up to 15 per cent from those selling at supermarkets.

E. Traditional Markets – Sub-Sector Profile

- Almost all of the clientele of the traditional markets are local Hong Kong Chinese people.
- Traditional markets include wet markets and mom-and-pop shops. They are widespread throughout the territory. Traditional markets used to account for the lion's share of food retail. For example, they occupied around 54 percent of total retail food sales between 1995 and 1997. Yet supermarkets sales have exceeded traditional markets sales since 1998, and the dominating trend of the former is likely to persist and enlarge in the future. Despite the growing significance of supermarkets in terms of food retailing, traditional markets remain as key food retail outlets, particularly for seafood, meat and groceries. Wet markets still occupy about 80 percent of the retail sales of fresh foods, according to an estimate by the Agriculture, Fisheries and Conservation Department. Wet markets in Hong Kong have changed gradually over the years. The newly built markets are air-conditioned and more hygienic and more environmentally pleasant than the old ones. Some, but not all, stalls in wet markets have freezers and chilling equipment, which is necessary to maintain food quality.
- Mom-and-pop shops around the housing estates and schools are ideal retail outlets for drinks and snack foods. One feature of traditional markets is that stalls are small, but the service they offer is personal.
- A traditional mom-and-pop shop which started business in 1990 has expanded to 54 stores spreading all over Hong Kong in recent years. The stores are called Yu Kee, with floor area ranging around 1,500 sq. feet each. They sell mainly processed foods and produce. Most of the food supplies come from China and South East Asia. They also import snack foods and drinks from Europe. However, U.S. foods are not yet on their shelves. The stores feature cheap prices and are after the mass market.
- Another chain store worth mentioning is called Magic House. With 100 retail stores, they operate like "convenience stores" except that their business hours are only around 10 hours instead of 24 hours. They primarily sell snack foods, drinks and ice cream.

SECTION III. COMPETITION

Note : 2003 statistics; Market Share in terms of Import Value

Source : World Trade Atlas – Hong Kong Census & Statistics Department

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Snack Foods Imports \$199 million 56,211 MT Retained Imports 26,112 MT	1. China – 25% 2. Japan – 16% 3. Italy – 12% U.S. – 7%	<p>Though China is the largest supplier, imports include some international brands, which have manufacturing establishments in China.</p> <p>Japanese snacks have good retail outlets in Hong Kong through supermarkets located in Japanese department stores.</p>	Local production is insignificant.
Red Meats, chilled/frozen Imports \$731 million 539,481 MT Retained Imports 259,289 MT	1. Brazil – 23% 2. U.S. – 21% 3. China – 18%	<p>U.S. beef products are currently subject to the ban in Hong Kong. The ban provides the opportunity to beef supplies from other countries such as Australia and New Zealand to fill in the void and expand their market share.</p> <p>Products from Brazil and China are price competitive, but they are of different market segments from U.S. products.</p> <p>U.S. beef is largely on the high-end market.</p>	Local production is largely on freshly slaughtered meats.
Poultry Imports \$641 million 798,051 MT Retained Imports 229,494 MT	1. US – 42% 2. Brazil – 23% 3. China – 14%	<p>U.S. products dominate the market because of abundant supplies and a wide variety of grades.</p> <p>Brazilian products though are popular but are relatively less in supplies.</p> <p>Brazilian products are price competitive.</p> <p>The reduced supplies of live chickens to Hong Kong will lead to increased demand for chilled chickens from China.</p>	Local production is on freshly slaughtered meats.

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Dairy Products Imports \$242 million 149,900 MT Retained Imports 135,513 MT	1. Netherlands – 21% 2. China – 15% 3. Singapore –12% U.S. – 4%	Netherlands is strong in dairy product supplies and its position has been well-established in Hong Kong. Many imports from China include some Hong Kong and international brands, which have manufacturing establishments in China.	Local companies supply fresh milk drinks, which are processed in Hong Kong with milk originated from farmlands in the southern part of China. Local companies can easily fulfill local milk registration requirements.
Fresh Fruit Imports 736 million 939,359 MT Retained Imports 556,593 MT	1. U.S. – 32% 2. Thailand – 14% 3. Australia – 10%	U.S. fresh fruits are highly regarded as having good quality. Thai and Australian Trade commissions in Hong Kong aggressively sponsor trade promotion activities.	No local production.
Processed Fruit & Vegetables Imports \$237 million 199,526 MT Retained Imports 154,151 MT	1. China - 36% 2. U.S. – 25% 3. Thailand – 7%	Supplies from China are price competitive. Besides, some international brands have operations in China and their exports to Hong Kong are considered as imports from China. Products from the U.S. are more for the high-end market.	Local production is insignificant.

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Tree Nuts Imports \$ 251 million 112,906 MT Retained Imports 86,271MT	1. Iran – 59% 2. U.S. – 25% 3. Australia 3%	63% of the tree nuts imported to Hong Kong are pistachios. Iran is very strong in supplying pistachios, occupying about 98% of total import supplies in Hong Kong. The U.S. is very strong in supplying almonds and hazelnuts. Some of the imports are re-exported to China for processing.	No local production
Wine & Beer Imports \$132 million 132,153,862 liter Retained Imports 126,200,979 liter	1. France – 24% 2. China 15% 3. Korea - 12% U.S. – 11%	China and Korea are major suppliers for beer while France is the major supplier for wine. French wine is highly regarded in Hong Kong though expensive. Hong Kong people are not very familiar with U.S. wines. Beer & liquor with less than 30% alcohol is subject to 40% tax and wine 80%.	Hong Kong does not have any wine production. San Miguel is a popular local brand for beer. Locally produced beer is subject to the same tax rate as imports.

SECTION IV. BEST PRODUCT PROSPECTS**A: Products Present in the Market Which Have Good Sales Potential**

Note :

- 1 Hong Kong food supplies largely rely on imports. Domestic production is very minimal so the market size in the following table is equal to retained imports without taking into account local production.
- 2 Import tariff rate for all products in the tables is zero. (Exceptions: Beer & liquor with less than 30% alcohol – 40%; all wines - 80%, liquor with more than 30% alcohol : 100%).

Product Category	2003 Total Imports	2003 Retained Imports	1999 – 2003 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Poultry Meat	851,912 MT	227,836 MT	-15%	Strong competition from Brazil Effective April 29, U.S. chicken paws exported to Hong Kong required to meet new standard (the standard similar to other poultry products). Direct shipment from the U.S. to China increased.	Demand for a wide variety of grades; trade prefer U.S. good packaging; consumers becoming more acceptable to frozen chicken products.
Oranges	211,018 MT	153,721 MT	4.4%	Strong competition from Brazil and other fruits	Consumers' recognition of U.S. origin and quality
Grapes	88,575 MT	26,226 MT	-15 %	Strong competition from Chile & Australia	U.S. being the largest supplier; competitors supplying in different seasons

Product Category	2003 Total Imports	2003 Retained Imports	1999 – 2003 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Apples	134,085 MT	88,155 MT	-3.7%	Apples from China are very price competitive and their quality has improved.	U.S. remaining as the largest supplier and apples being one of the most popular fruits in Hong Kong
French Fries	23,892 MT	18,642 MT	18%	HRI being hampered by economy downturn in the past few years. Business is expected to pick up in 2004 & 2005	U.S. accounting for 93 percent of the market share; products well-received by trade
Sauces	86,797 MT	65,695 MT	8.2%	China and Thailand are two major competitors. The oriental favor of sauces from these countries is a distinct advantage.	Hong Kong people are receptive to new tastes. The availability of much international cuisine offers a demand for U.S. sauces.
Soup	16,990 MT	15,594 MT	0.6%	HRI being hampered by economy downturn in the past few years. Business is expected to pick up in 2004 & 2005.	The U.S. occupied about 73 percent of the import market share. U.S. products are highly regarded.

Product Category	2003 Total Imports	2003 Retained Imports	1999 – 2003 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Fresh Vegetables	584,528 MT	577,258 MT	32%	Abundant supplies of fresh vegetables from mainland China. Prices are very competitive. U.S. products are competing with those from Australia and New Zealand.	A burgeoning tourist industry and availability of many high-end restaurants lead to a constant demand for quality U.S. fresh vegetables supplies.

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

Product Category	2003 Total Imports	2003 Retained Imports	1999 – 2003 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Eggs	1,549 million	1,548 million	2.3%	Growing competition from China and Thailand.	Hong Kong's HRI sector is very receptive to U.S. white eggs. The U.S. is the largest supplier of white eggs for the Hong Kong market.

Beer	120,921,868 liter	116,001,880 liter	4.6%	Consumers of beer tend to have brand loyalty and Hong Kong consumers are not very familiar with U.S. brands. Duty for beer is 40%.	Hong Kong people like beer and there are many bars and restaurants in Hong Kong.
Processed Sweet Corn	18,218 MT	16,748 MT	8%	HRI being hampered by economy downturn in the past few years. Business is expected to pick up in 2004 & 2005.	U.S. accounting for 88 percent of the market share; products well-received by trade.
Ice Cream	6,305 MT	6,017 MT	-0.5%	Expensive to launch marketing programs for new brands.	Great demand for ice cream products; consumers willing to pay for premium products.
Molluscs	56,061 MT	40,996 MT	5.6%	Competition severe from Hong Kong's neighboring countries; Molluscs including a variety of products such as scallop, oyster, abalone, etc. Japan being the largest supplier for dried scallop and Australia for abalone.	Strong demand for seafood in Hong Kong; U.S. oysters highly regarded; however, the overall U.S. market share in molluscs market being small; room for market expansion present.

Organic Products	Statistics products are not available	Only very few consumers willing or able to afford to pay for the premium for organic products; strong competition from products from Australia and Europe.	The organic market is growing and consumers are getting more health conscious.
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C. Products Not Present Because They Face Significant Barriers

Hong Kong has suspended U.S. beef imports, including raw and cooked beef products, since December 24, 2003 because of the BSE case in the United States.

SECTION V. POST CONTACT AND FURTHER INFORMATION

Foreign Agricultural Service (FAS)
Home Page: <http://www.fas.usda.gov>

Agricultural Trade Office
American Consulate General
18th Floor, St. John's Building
33 Garden Road, Hong Kong
Tel: (852) 2841-2350
Fax: (852) 2845-0943
E-Mail: ATOHongKong@usda.gov
Internet Homepage : <http://www.usconsulate.org.hk>
<http://www.usfoods-hongkong.net>

Department to implement food safety control policy

Food & Environmental Hygiene Department
43/F., Queensway Govt Offices
66 Queensway
Hong Kong
Tel: 852-2868-0000
Fax: 852-2834-8467
Web site: <http://www.fehd.gov.hk>
E-mail: enquiries@fehd.gov.hk

Department to control the importation of plants & live animals

Agriculture, Fisheries & Conservation Department
5-8/F., Cheung Sha Wan Govt Offices
303, Cheung Sha Wan Rd
Kowloon, Hong Kong
Tel: 852-2708-8885
Fax: 852-2311-3731
Web site: <http://www.info.gov.hk/afcd>
E-mail: mailbox@afcd.gov.hk

Department to issue licence for imported reserved commodities

Trade & Industry Department
18/F., Trade Department Tower
700 Nathan Road
Kowloon, Hong Kong
Tel: 852-2392-2922
Fax : 852-2789-2491
Web site: <http://www.info.gov.hk/tid>
Email : enquiry@tid.gov.hk

Department to register health foods containing medicine ingredients

Department of Health
Pharmaceuticals Registration
Import & Export Control Section
18th Floor, Wu Chung House
213 Queen's Road East, Wanchai
Hong Kong
Tel : 852-2961-8754
Fax : 852-2834-5117
Web site : <http://www.info.gov.hk/dh/index.htm>

Department to issue licence for imported dutiable commodities

Hong Kong Customs & Excise Department
Office of Dutiable Commodities Administration
6-9th floors, Harbor Building
38 Pier Road
Central
Hong Kong
Tel: 852-2815-7711
Fax: 852-2581-0218
Web site: <http://www.info.gov.hk/customs>
Email : customsenquiry@cutsoms.gov.hk

Department for Trade Mark Registration

Intellectual Property Department
Trade Marks Registry
24th and 25th Floors, Wu Chung House
213 Queen's Road East
Wan Chai
Hong Kong
Tel : 852-2803-5860
Fax : 852-2838-6082
Web site : <http://www.info.gov.hk/ipd/eng/index.htm>

Semi-government Organization Providing Travel Information

Hong Kong Tourist Association
9th - 11th floors, Citicorp Center,
18 Whitfield Road, North Point, Hong Kong
Tel: (852) 2807-6543
Fax: (852) 2806-0303
E-mail: info@hkta.org
Home Page: www.hkta.org

Semi-government Organization Providing Hong Kong Trade Information

Hong Kong Trade Development Council
38th Floor, Office Tower, Convention Plaza
1 Harbor Road, Wan Chai, Hong Kong
Tel: (852) 2584-4188
Fax: (852) 2824-0249
E-mail: hktdc@tdc.org.hk
Home Page: <http://www.tdctrade.com>